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DIRECTORATE OF
INTELLIGENCE

Intelligence Memorandum

The Economic Situation in South Vietnam, February 1973

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CENTRAL INTELLIGENCE AGENCY

Directorate of Intelligence

February 1973

INTELLIGENCE MEMORANDUM

**THE ECONOMIC SITUATION IN SOUTH VIETNAM
FEBRUARY 1973**

SUMMARY

1. Communist interdiction of major supply routes combined with pre-Tet buying to cause commodity shortages and higher prices before and after the cease-fire, but by late February most roads were open and prices had declined. Despite the market confusion, the government proceeded with steps, including another devaluation, to cut back on the quantity of imports demanded.

2. Since the cease-fire, many countries have offered aid to South Vietnam or Indochina as a whole, but there have been few specific commitments.

3. Communist forces in Military Region (MR) 3 have begun building homes and offering land and food to encourage people to settle in areas they control. Saigon, involved in caring for about 650,000 refugees living in government camps, apparently has not set a definite policy regarding resettlement of refugees from Viet Cong-held or contested areas.

4. Charts showing major economic indicators and the government budget (Figures 1 and 2) follow the text.

Note: Comments and queries regarding this publication are welcomed. They may be directed to [redacted] the Office of Economic Research,
[redacted]

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SECRET**DISCUSSION****Recent Developments**

5. Events surrounding the cease-fire have thus far had little impact on the economy, which continues to reflect the sluggishness evident since the start of last spring's enemy offensive. The combination of pre-Tet buying, heightened military activity, and Communist interdiction of major supply routes resulted in some commodity shortages and higher prices immediately before and after the 27 January cease-fire, but by late February most roads were open and prices had declined. Despite some upswing in sales of goods and services prior to the Tet holidays (3-6 February), consumer demand remains at a relatively low level, and the commodity shortages did not elicit any significant hoarding. Farmers are carrying on their normal activities except in areas of continued fighting, but very little business investment is taking place.

Commodity Markets

6. Markets most affected by the post-cease-fire hostilities were those in provincial capitals in MR 2 and Saigon. During the first half of February, several cities in MR 2 were cut off for days at a time. Merchants in Tuyen Duc Province suffered substantial losses of perishable vegetables because they were unable to get their trucks through to the Saigon market. Route 14 from Pleiku to Kontum was still interdicted as of 24 February, but rice and other essential goods were being airlifted into Kontum to alleviate the critical shortages there. All other commercial routes in MR 2 were reopened by mid-February, and, despite more than usual harassment, traffic had returned to almost normal levels by the end of the month.

7. In Saigon, modest Tet-related increases in demand in the face of enemy interdiction of supply routes led to a 14% price rise during the last two weeks in January. With Tet over and roads reopened, prices fell but were still up 5% above the pre-cease-fire level as of 21 February.¹ Prices of perishable foodstuffs have been slow to decline, apparently because truckers are still wary about security problems. Although rice supplies have been ample and prices stable throughout the period, merchants in some Delta provinces have held off shipping rice from the new crop until escorted barge convoys can be arranged. Even should prices for meat, fish, and vegetables decline somewhat further, there still will be some permanent increase in the overall price level because the government raised official

¹. Because prices were stable until late January, the consumer price index is also up 5% for the year to date.

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prices for sugar and petroleum products at the beginning of February. Moreover, the higher fuel costs almost certainly will be passed along to consumers in the form of higher transportation charges for all kinds of goods.

8. Despite the prevailing confusion in commodity markets, the government went ahead with its plans to cut back import demand so as to economize on foreign exchange. It was in this context that the government took the official price measures on sugar and petroleum cited above in the hope of reducing demand for items which together accounted for almost 20% of the value of import orders in 1972.² In addition, there was another small devaluation of the piaster on 26 January,³ and further devaluations can be expected in coming months. Finally, in late February the government banned imports of finished textile fabrics until further notice and substantially raised advance deposits on imports of many luxury goods.

Currency Markets

9. Recent developments in the Saigon currency and gold black markets have been more a function of the international monetary crisis than of any changes in domestic confidence stemming from the cease-fire. A central element was the implicit devaluation of the piaster, the exchange value of which is defined in terms of US dollars. When the United States devalued on 12 February, South Vietnam chose to maintain the piaster/dollar rate unchanged at 475:1. The black market price of dollars, which had been increasing fairly steadily since late last fall, declined sharply with the announcement of the dollar devaluation but has since climbed back up to the early February level of 549 piasters per dollar. Following the rising world price of gold and the implicit devaluation of the piaster, the price of gold leaf in Saigon continued its steady upward climb to reach 37,500 piasters per troy ounce (about \$79) on 21 February.

Aid Offers

10. Since the cease-fire, offers of grant aid to South Vietnam have come from many countries, but most have been couched in terms of aid for all of Indochina and very few have mentioned specific amounts. To date, North Vietnam has received more new commitments of aid than South Vietnam, primarily because Sweden, which favors Hanoi over Saigon, has been among the first to announce its intentions. Most donors apparently

2. The difference between the cost of these imports and their official selling prices reverts to the government, so raising prices also serves to increase revenues.

3. The official exchange rate was raised 10 piasters to 475 piasters per dollar and the special rate for US-financed imports moved from 320 to 330 piasters per dollar.

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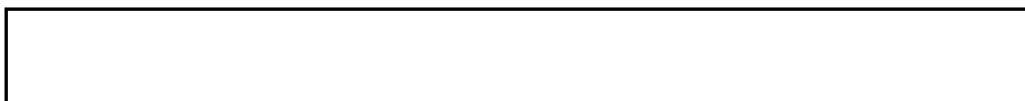
are waiting for the United States to lead in setting amounts and establishing some kind of aid vehicle before committing any substantial amounts of money. The relatively small amounts cited thus far are to be used primarily for humanitarian assistance such as food, clothing, and medical supplies. Only West Germany and New Zealand have mentioned amounts much larger than \$1 million, and these are to be used for reconstruction and development in Indochina as a whole. Japan has stated its willingness to provide substantial aid to South Vietnam as well as the rest of Indochina, but has not yet settled on any specific amount.

11. Since 1964, South Vietnam has received about \$200 million in grant aid from more than 40 countries besides the United States. The largest contributors have been West Germany, France, Australia, Japan, Canada, and the United Kingdom, all of which have continuing technical and humanitarian aid programs in South Vietnam. Most are likely to maintain some aid program while providing funds for the other states in Indochina as well. Beginning in 1970, some of these countries also provided soft-term loans to South Vietnam. Japan is the principal lender (about \$30 million) and reportedly is prepared to make additional loans once feasible projects can be identified and agreed upon.

Refugee Movements

12. Communist forces reportedly are beginning to carry out their plans to use economic incentives to increase the population under their control.⁴ Most such activity reported thus far is centered in Tay Ninh Province along the Cambodian border, where the Viet Cong are offering three acres of land and new houses to Vietnamese returning from Cambodia. Similar offers are being made to people living in government-controlled areas of the province. Part of the cross-border movement apparently has been stirred up by anti-Vietnamese feeling among the Cambodian Communists, who are forcing several hundred Vietnamese to move back to South Vietnam. In the northern part of the country, the Viet Cong are openly clearing large plots of land and building houses in western Quang Tin Province, but there is no evidence as yet to tie this activity to enticing refugees into the area.

13. The contest over refugees is likely to cause problems for the government, especially in Quang Tri. Officials are urging many refugees from Quang Tri now in camps near Da Nang to resettle in MR 3, as several thousand others already have since early last year. Many of the refugees, however, want to return to their homes after the fighting dies down no



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matter which side controls their villages. At this point, Saigon apparently has no clear-cut policy regarding the resettlement of refugees from contested areas or those under Viet Cong control. Resettlement from MR 1 to MR 3 is continuing, but there are also reports that the government wishes to repopulate areas that have recently been recaptured from the enemy.

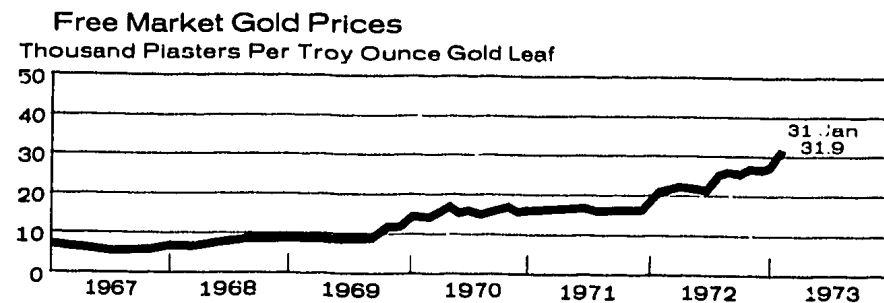
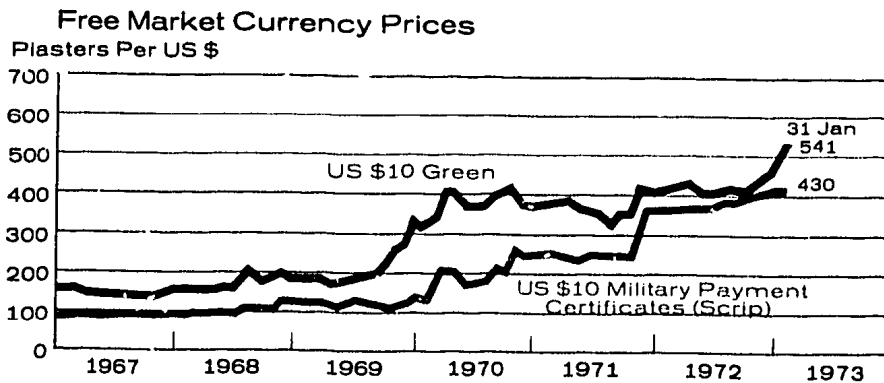
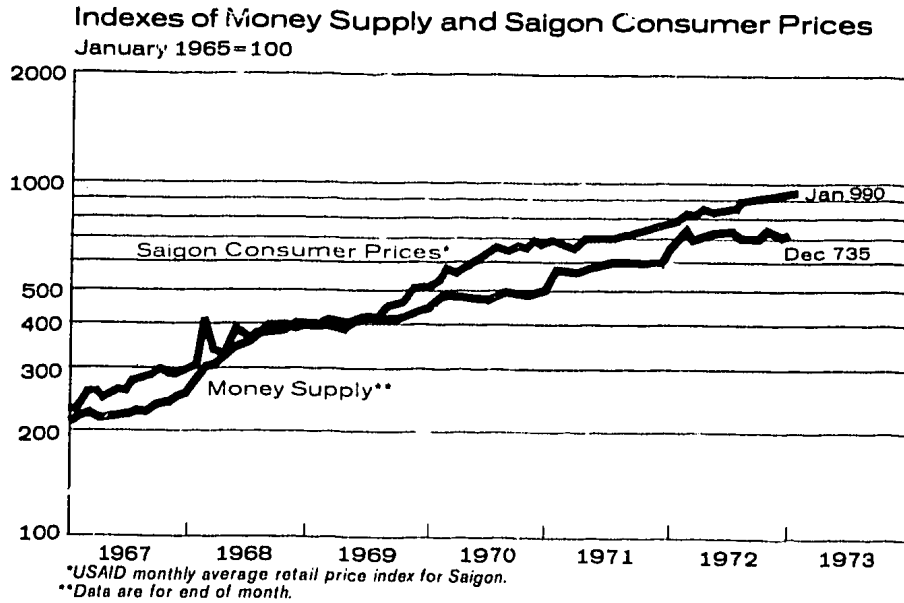
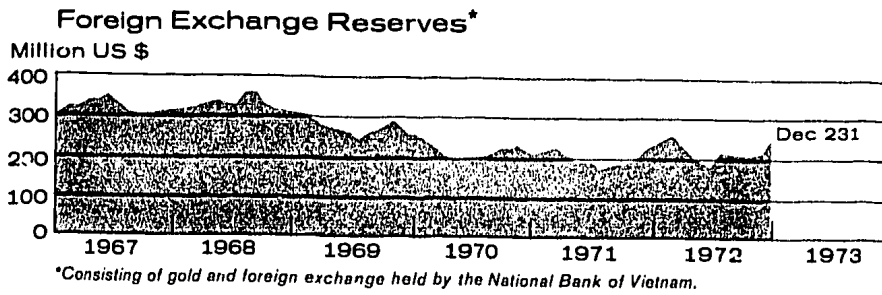
14. Meanwhile the government has its hands full caring for about 620,000 refugees from the 1972 offensive who are still in temporary camps. Since the cease-fire, another 240,000 people have fled their homes. Although most have been able to return to their homes within a few days, about 30,000 have entered government refugee centers. In addition to food and shelter, the government is having considerable success in providing some sort of employment for as many refugees as possible on camp maintenance and improvement projects and on public-service projects in nearby cities. At the beginning of February, about 35,000 refugees were employed in such work, and thousands more have benefited since the work programs began last November. The number of refugees whose income is affected by these activities is probably closer to one-third of the camps' population, since the average family size is six or seven persons.

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South Vietnam: Economic Indicators

Figure 1



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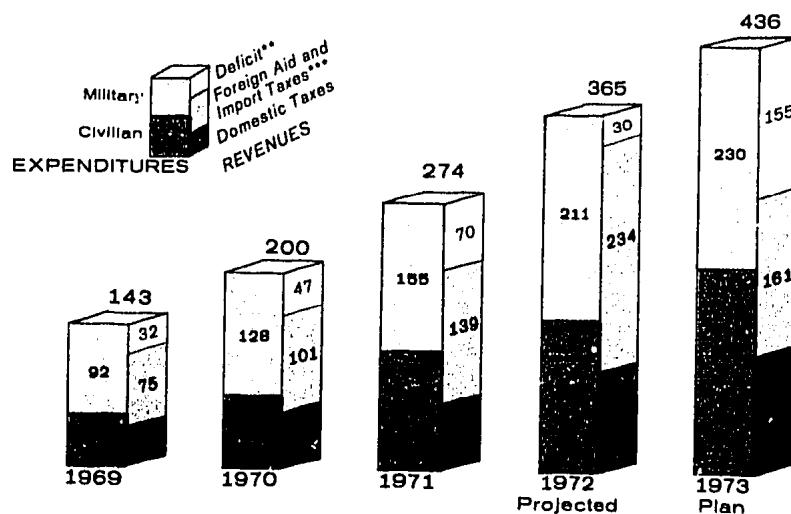
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Figure 2

South Vietnam: Government Budget*

Billion Piasters



*Data include extrabudgetary revenues and expenditures.

**Residual. Financed primarily by borrowing from the National Bank.

***Includes customs duties and other import taxes, counterpart funds generated by US-financed import programs, and profits from foreign exchange transactions.

A major result of the November 1971 reforms was to make explicit a greater share of US aid to the budget that earlier took the form of high customs duties on aid-financed imports.

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